



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, November 18, 2011
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:35 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
Mr. Tom Manos, Vice-chair
Mr. Tom Connelly
Mr. Chris Harris (via teleconference)
Professor Dennis Hoffman
Mr. Michael Townsend (via teleconference)
Mr. Larry Trachtenberg (arrived at 8:36 A.M.)

Absent: Mr. Kevin McCarthy
Mr. Steve Zeman

A quorum was present for the purpose of conducting business.

2. Presentation Regarding PRIDE Award for Excellence

Mr. Paul Matson, Director, recognized the following nominees for the PRIDE Excellence award: Ted Kistner, Mike Hostetler, Dave Cannella, The Leadership and Customer Service trainers: Aaron Chandler, Juanita Primero, Armando Coronado, Carol English, Kim Beck, Kelly Martin, Michael McCarthy and Ted Kistner, and Gina Landeros-Thomas.

Mr. Larry Trachtenberg arrived.

The nominees were recognized by their peers as exemplifying the following PRIDE qualities of excellence:

- Surpass member, stakeholder and associate expectations
- Embrace positive changes in a manner which inspires others
- Demonstrate a willingness to go the extra mile to engender a positive public image that solidifies the perception the ASRS is a trusted brand that members, stakeholders and associates will recognize
- Create a motivated, healthy and productive work environment that celebrates and rewards the accomplishments and contributions of others

- Take a personal interest in promoting teamwork through effective use of communication methods within the ASRS to ensure the effective flow of information and knowledge (This includes verbal, non-verbal, written and technological communication techniques)
- Accept personal responsibility and challenges with enthusiasm

Mr. Matson presented the PRIDE Award for Diversity to the award winner, Michael Hostetler. Mr. Hostetler recognized his co-workers for their contributions: Julie Lockwood, Dave King, the MSD Walk-in Team, Don Mosch, Emily Reynolds, Rick Flores, Jennifer Flojo, CherylAnn Woods, Margaret Bellum, Margaret Mingey, Mike Kennedy, Peggy Dangler, Kelly Martin, Chad Guderian, and the Production Team, Meetings Team, and Call Center Team.

3. Approval of the Minutes of the October 21, 2011 Public Meeting of the ASRS Board

Motion: Professor Dennis Hoffman moved to approve the minutes of the October 21, 2011 Public Meeting of the ASRS Board. Mr. Larry Trachtenberg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

4. Presentation Regarding the Arizona State Retirement System's Comprehensive Annual Financial Report (CAFR) for FY 2011

Mr. Corey Arvizu, Partner, and Mr. Neil Galassi, Audit Manager, Heinfeld, Meech & Company, P.C., presented an unqualified Independent Auditor's Report for the fiscal year ending June 30, 2011, on the ASRS financial statements that collectively comprise the ASRS' basic financial statements in the Comprehensive Annual Financial Report (CAFR). An unqualified report means the ASRS financial statements present fairly, in all material respects, the net assets of the ASRS as of June 30, 2011, and the changes in net assets for the year ended in conformity with accounting principles generally accepted in the United States of America. Mr. Arvizu and Mr. Galassi said the audit took 900 hours of work. They expressed appreciation for the cooperation of ASRS staff, noting the concerted effort of staff, making it possible to present the CAFR several months earlier than usual.

5. Presentation, Discussion and Appropriate Action Regarding ASRS Valuations

a. The ASRS System Valuation and Actuary's Recommendation Regarding 13th Checks for Retired System Members

Mr. Charlie Chittenden, Actuary, Buck Consultants, and Mr. Doug Fiddler, Director, Buck Consultants summarized the System Valuation. They provided information regarding non-retired census data, retiree census data, liabilities and funded status. The funded status for the System as of June 30, 2011, was reported as 90.35%. By prior rule, the ASRS would not increase benefit levels when funded status is below 105%. No additional 13th checks or additions to current 13th checks are recommended this year. All current 13th checks will continue to be paid.

Motion: Professor Dennis Hoffman moved to accept the System Actuarial Valuation as presented. Mr. Larry Trachtenberg seconded the motion.

Mr. David Byers, Chair, asked Mr. Paul Matson, Director, if this motion implied no increase in the 13th check and Mr. Matson affirmed it would.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

b. The ASRS Pension Plan and Health Insurance Valuation

Mr. Chittenden and Mr. Fiddler addressed the Board regarding the ASRS Pension Plan and

Health Insurance Valuation. Mr. Chittenden noted recent legislation changing the split between employer and employee contributions. Trustees asked if the statute includes language stating exactly what the percentages are, such as 53/47. Ms. Jothi Beljan, Assistant Attorney General, stated it is currently being litigated but she could not comment on the litigation because it wasn't an agenda item.

Mr. Chittenden explained his presentation would include assumptions resulting from changing the salary scale to reflect recent actual experience as well as assumptions without changes to the salary scale. The following were presented as possible recommended changes in contribution rates.

	June 30, 2010			June 30, 2011 (Current Assumptions)			June 30, 2011 (0.50% Decrease in Wage Inflation)		
	401(a)	401(h)	Total	401(a)	401(h)	Total	401(a)	401(h)	Total
Total Contribution Rate	20.37%	0.63%	21.00%	21.82%	0.65%	22.47%	21.15%	0.65%	21.80%
Employee Contribution Rate	11.13%	0.00%	11.13%	11.91%	0.00%	11.91%	11.55%	0.00%	11.55%
Employer Contribution Rate	9.24%	0.63%	9.87%	9.91%	0.65%	10.56%	9.60%	0.65%	10.25%

Under current actuarial assumptions, the total contribution rate would be 22.47%. Assuming a .50% decrease in wages to reflect actual recent experience due to pay cuts and furloughs, the total contribution rate would be 21.80%. The change in contribution rate will go into effect July 1, 2012.

Professor Dennis Hoffman commented on the intergenerational inequity he perceived reflected in the history of Plan contribution rates over the past 30 years, asking where we could have been now, if the contribution rate had been 10% during that entire time frame. Mr. Chittenden said there are organizations such as the United Nations that do maintain a consistent contribution rate. Mr. Chittenden commented if we were more conservative in the assumptions, contribution rates would be high all the time, an unpopular option.

Mr. Matson said many employers set their budget based on the contribution rate split. He suggested the possibility of a motion approving an aggregate rate, allowing staff to set a different split between employer and employee if a future judicial outcome requires such. Mr. Matson also explained there will be an experience study in a year or so. Mr. Chittenden noted the study would be ready in early 2013. One trustee asked his opinion regarding departing from using current assumptions, and Mr. Chittenden replied the numbers for the current assumptions all changed in the middle of this past five-year cycle. Therefore, he felt it was good to revisit it now and consider using the decreased salary scale to arrive at an alternate contribution rate, rather than waiting for the experience study to be completed. Some trustees agreed and some did not.

Motion: Mr. Tom Connelly stated Article XXIX of the state constitution requires public retirement systems to be funded using methods and assumptions that comply with generally accepted actuarial standards. In view of this requirement, Mr. Connelly moved to accept the 2011 actuarial valuation report of the Plan, with the new aggregate contribution rate of 22.47%, and

authorize staff to determine the split for employees and for employers, and disseminate that information to employers in accordance with state statutes. Mr. Larry Trachtenberg seconded the motion.

By a vote of 3 in favor, 4 opposed, 0 abstentions, and 2 excused, the motion failed.

Motion: Mr. Michael Townsend stated Article XXIX of the state constitution requires public retirement systems to be funded using methods and assumptions that comply with generally accepted actuarial standards. In view of this requirement, Mr. Townsend moved to accept the 2011 actuarial valuation report of the Plan, with the new aggregate contribution rate of 21.80%, and authorize staff to determine the split for employees and for employers, and disseminate that information to employers in accordance with state law or by court decision. Professor Dennis Hoffman seconded the motion.

By a vote of 4 in favor, 3 opposed, 0 abstentions, and 2 excused, the motion was approved.

c. The ASRS Long Term Disability (LTD) Valuation

Mr. Chittenden and Mr. Fiddler addressed the Board regarding the LTD Plan Valuation. Mr. Chittenden explained, as with the Plan, the LTD presentation would include numbers resulting from changing the salary scale to reflect recent actual experience as well as numbers without changes to the salary scale. Items of interest were noted, including maintaining the current total contribution rate of 0.50% under current assumptions, or at 0.49% under a reduced salary scale, beginning July 1, 2012.

Motion: Mr. Michael Townsend moved to accept the LTD Actuarial Valuation as presented with the new aggregate contribution rate of .49% to be split in the same manner in accordance to the Plan. Mr. Tom Manos seconded the motion.

By a vote of 4 in favor, 3 opposed, 0 abstentions, and 2 excused, the motion was approved.

d. The ASRS Alternate Contribution Rate (ACR)

Mr. Chittenden and Mr. Fiddler addressed the Board regarding the ASRS aggregate results and Alternate Contribution Rate (ACR). They presented the ACR with and without reduced salary scale assumptions. The ACR under current assumptions would be 8.95%, and would be 8.64% under the reduced salary scale.

Discussion ensued in which a trustee commented the Legislature's decision last year would exacerbate intergenerational inequity in contribution rates. Some trustees were wary of making less conservative assumptions due to possibly lower future market returns. Other trustees said reducing the salary scale may be in the best interest of members and the trust. One trustee commented the state cannot retain or attract certain employees because contribution rates are so high.

Motion: Mr. Michael Townsend moved to accept the Alternate Contribution Rate of 8.64%, beginning July 1, 2012. Mr. Tom Manos seconded the motion.

By a vote of 4 in favor, 3 opposed, 0 abstentions, and 2 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the 2012 Legislative Session

Mr. Byers noted this agenda item would be addressed earlier in the agenda, to accommodate a Tucson member's request to speak. Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding ASRS 2012 legislative initiatives and legislative proposals by other organizations that affect the ASRS. Ms. Sorensen also noted the DC Study Committee met a few times and has been reviewing salary spiking and other issues.

Mr. Letson addressed the Board regarding his views on upcoming legislation.

7. Presentation, Discussion and Appropriate Action Regarding the ASRS Total Fund Performance Review for the Period Ending September 30, 2011

Mr. Gary Dokes, Chief Investment Officer; Mr. David Underwood, Assistant Chief Investment Officer; and Mr. Allan Martin, Partner, NEPC, addressed the Board regarding the Total Fund Performance Overview for the period ending September 30, 2011, highlighting specific areas of interest and concern.

The Total Fund Performance for the period ending September 30, 2011 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	-9.9%	2.8%	4.5%	1.9%	5.2%	9.6%
Interim SAA Policy	-10.2%	2.0%	3.7%	1.7%	4.9%	9.4%
Excess Return	0.3%	0.8%	0.8%	0.2%	0.4%	0.2%

*Interim SAA Policy: 31% S&P 500, 7% S&P 400, 7% S&P 600, 13% MSCI EAFE, 2% MSCI EAFE Small Cap, 3% MSCI Emerging Markets, 24% Barclays Capital Aggregate, 2% Barclays Capital High Yield, 5% NCREIF ODCE (lagged one quarter), 3% Russell 2000 (lagged one quarter), 3% Dow Jones/UBS Commodities Index.

Note: Interim SAA Policy includes a proration of 1% Real Estate and 4% Private Equity, which are unfunded. Real Estate was prorated to domestic equity, international equity and fixed income, while Private Equity was prorated to domestic equity.

8. Presentation, Discussion and Appropriate Action Regarding the Private Markets Program Review

Mr. Dokes; Mr. Karl Polen, Portfolio Manager of Private Markets; Mr. Martin; Mr. Sean Ruhmann, Senior Consultant – Real Estate, NEPC, and Mr. Charles Tedeschi, Consultant – Private Markets, NEPC, addressed the Board regarding the Private Markets program review. Presentations were made reviewing the ASRS Private Equity, Real Estate and Private Opportunistic asset classes. ASRS' target funded allocation to private equity is 7.0% (+/- 2.0%) or \$2.0 billion of total pension assets. The ASRS has established a 0-3% target range for the Opportunistic Private Investment (OPI) Program and 6.0% for the Real Estate program.

Mr. Chris Harris and Mr. Michael Townsend departed the meeting around 12:38 p.m.

9. Presentation, Discussion and Appropriate Action Regarding the ASRS Commodity Program Review

Mr. Dokes, Mr. Eric Glass, Portfolio Manager, and Mr. Tim McCusker, Partner, Director of Traditional Research, NEPC, addressed the Board regarding the ASRS Commodity program. As of September 30, 2011, the market value of the ASRS Commodity program was

approximately \$465 million, or 1.9% of total assets.

10. Presentation, Discussion and Appropriate Action Regarding the Board Self-Evaluation Materials Distribution

Mr. Byers asked the Board members to complete the Board self-evaluation materials and return them to him by December 8, 2011, so he has time to review the materials and prepare for the discussion in January.

11. Presentation, Discussion and Appropriate Action Regarding Calendar Year 2012 Board Meeting Calendar

Mr. Byers addressed the Board regarding the 2012 Board meeting calendar. Meetings will be held on January 20, February 17, March 16, April 20, May 18, June 15, August 17, September 21, October 19, and November 16. All Board meetings will begin at 8:30 a.m.

Motion: Mr. Larry Trachtenberg moved to approve the 2012 Board meeting schedule. Professor Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

12. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report. He had no comments and there was no discussion.

13. Presentation and Discussion with Respect to Informational Updates from the Operations Committee, Investment Committee, and External Affairs Committee

Mr. Byers introduced the agenda item, noting the upcoming meeting dates were available. He had no comments.

14. New Agenda Items

No requests were made.

15. Call to the Public

Mr. Byers noted Mr. Peltier, in Tucson, submitted a general request to speak form, but was no longer present. No other members of the public requested to speak.

16. The next ASRS Board meeting is scheduled for Friday, January 20, 2012, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

17. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 1:04 P.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date